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SUBJECT: NEPAL'S INTERIM GOVERNMENT MOVES REFORM FORWARD

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[B. B.](#) 2002 KATHMANDU 2467
[C. C.](#) KATHMANDU 80

Summary

[¶1.](#) In the four months of its existence, Nepal's interim government has begun important reforms to control corruption, decentralize some government services, privatize ailing industries, and improve accountability. Although much remains to be done, including establishing services in conflict-affected areas of the country, these signs of progress are encouraging indicators of improved governance in certain key areas. End Summary.

Interim Government Presses Reform Agenda

[¶2.](#) When King Gyanendra appointed Lokendra Bahadur Chand as Prime Minister, he specifically charged the PM with improving governance in Nepal. In the intervening four months, the interim government has begun to meet the challenge and has initiated reforms in government services with measurable success in some areas and potential for long-term improvements in others. In recognition of the government's reform efforts, the World Bank doubled Nepal's annual lending profile from low-case (eligible for USD 50 million in new loans) to base-case (eligible for USD 100 million in new loans) (Ref. A). The following provides an overview of several of the reforms that address long-held barriers to good governance in Nepal.

Anti-Corruption Drive

[¶3.](#) Amendments to the constitution that were passed by the previous government strengthening the central anti-corruption agency, the Commission for the Investigation of the Abuse of Authority (CIAA), have resulted under the interim government in high-profile arrests and investigations. Most notably, the CIAA charged two of the most powerful ministers in the former government with steering contracts to political allies and amassing wealth beyond their means (Ref B). A third former minister remains under investigation. In an effort to root out petty corruption, the Judicial Investigation of Property Commission (JIPC) is evaluating the property and incomes of 83,000 current government officials (appointees, civil service, police, and military) and will deliver its results in May 2003. The results of JIPC's investigation likely will result in another series of arrests by the CIAA. Surveys of corruption in Nepal have insufficient data to evaluate the impact of the Government's efforts thus far (Ref C). However, business contacts have commented repeatedly on the decline of bribe requests.

Government Service Decentralization

[¶4.](#) Schools. Nepali parents, especially in remote locations, have long complained of chronic absenteeism on the part of teachers assigned to these less desirable school districts. The Ministry of Education is moving forward with devolving 26,000 public schools to local management by 2007. School management will be undertaken by local School Management Committees, a body of parents and teachers, which will have the authority to hire/fire teachers, direct school funds, and hold public school officials accountable. The Ministry in Kathmandu will be limited to curriculum planning, teacher training, and monitoring. Local publication of the school's budget is also under discussion.

[¶5.](#) Health. Similar to school reform, rural health infrastructure will be turned over to Village and District Development Committees to make service providers responsive to the needs of the communities in which they serve. The local committees will monitor whether the health employees work at the health posts on their assigned days, and whether the requisite medical supplies are kept in inventory (rather than being sold on the black market). Also under Government consideration are plans from the Health Ministry to develop mobile health teams to serve people in Maoist-controlled areas.

16. Energy. To combat theft and low collection rates and improve service delivery, the Nepal Electricity Authority established eighteen electricity distribution centers across the country. Currently, 24 percent of Nepal's energy is lost to pilferage, costing the Government millions of dollars annually and driving up electricity rates. The establishment of these semi-autonomous units eliminates layers of bureaucratic control held by Kathmandu, which will now monitor performance indicators and focus on infrastructure planning.

Privatization

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17. In January, the Government of Nepal sold the government-owned Butwal Power Company (BPC) to a Norwegian-Nepali joint venture for USD 12 million in what is hailed in Nepal as its most successful privatization effort. BPC runs two hydro-electric projects, producing 17.1 megawatts, and holds 15 percent of the 60 megawatt Khimti hydro-project. The privatization effort had been bogged down in bureaucratic limbo for four years, amid charges that vested interests--in the shape of a powerful local businessman--impeded the sale. The sale should strengthen foreign investor confidence in Nepal and demonstrates the Government's commitment to privatize sensitive infrastructure holdings. The sale of BPC is the first clear success in Nepal's history of privatization and should serve to encourage similar efforts.

Improvements in Government Service Accountability

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18. In November 2002, the interim Cabinet established a National Vigilance Center to assist in corruption control and improve delivery of government services. One of the Center's first acts was to require the posting of fees and procedures at government offices to dissuade civil servants from taking advantage of their customers. Offices were also to post the contact information for the Center in an effort hold them accountable. No information on the success of this endeavor has yet been officially reported. However, anecdotes from users indicate a responsive approach to phoned complaints and prompt written replies to the complainant. In one case, a foreign businessman operating in rural Nepal complained of mistreatment at the hands of the Royal Nepal Army. Within three weeks of filing his complaint, he had a written apology from the Secretary at the Ministry of Defense and a personal apology from the regional military commander. More examples will be required to call the National Vigilance Center a success.

Comment

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19. The lack of political stability since the restoration of democracy in 1990, as reflected in the rapid succession of thirteen governments in as many years, has admittedly been the single greatest impediment to greater progress on several fronts critical to Nepal's socio-economic development. That said, the four-month old government has made an encouraging start. Nepalis cite corruption as the principal source of their disenchantment with successive democratic governments since 1990. That the interim government is attacking the problem with vigor--especially by focusing on high-profile, influential individuals long believed to be above the law--will be an important step toward restoring public confidence. Despite political opposition, Maoist violence, and wavering international support, the interim Government has made some progress toward delivering good governance. Much remains to be done to broaden the reform drive and deepen the efforts already begun. Ultimately, the interim Cabinet's progress must be measured by the provision or restoration of services to Nepal's conflict areas.

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